International Power
GDF SUEZ

Dr John Pierce
Chairman,
Australian Energy Market Commission
PO Box A2449
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Wednesday, 2 November 2011

Dear Dr Pierce

Issues for the AEMC from a recent market event

In September 2010, as International Power Australia, in a submission to your Transmission Frameworks Review, we commented in some detail on "Ineffective Inter-regional Service Provision".

Now, as International Power – GDF Suez, we are writing to draw your attention to a recent event in the market which exemplifies a part of our earlier concerns.

The concerns raised by this event reinforce our view that there needs to be a specific planning process with accountability for inter-regional transmission capability. This accountability should encompass not only the maximum capability that the network is to support, but also the extent to which capability is preserved over the range of network conditions which are likely to arise. Such specification would then support the necessary detailed network planning within each region.

The event to which we refer occurred on Tuesday 4 October. There were two relevant circumstances; first a planned outage of a transmission line in Victoria (Heywood- Mortlake No2 500 kV line), and second, the injection of some commissioning energy from the new Mortlake power station.

We note that following commissioning, generation from Mortlake is expected to be a common occurrence, and hence only the single planned line outage should be considered as specific circumstance making a contribution to the event.

During the event, the economic flow of energy into South Australia via the Heywood interconnector was entirely prevented, and furthermore a compulsory (non-economic) flow was enforced out of South Australia. This had two significant pricing consequences –

1 The energy price in South Australia was driven up to the market price cap, with the result that two trading interval prices were about $2112/MWh and $995/MWh, and

2 The prices for fast lower FCAS in South Australia reached the market price cap of $12500/MWh with high prices applying in 8 trading intervals.

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In addition to the pricing impacts, there was also a security breach in that insufficient FCAS service was enabled in South Australia at times during this event (this was a consequence of a loss of the remaining interconnection becoming the largest load-loss contingency applicable and the consequent demand for FCAS exceeding the supply).

We contend that consequences of this magnitude following a single planned outage of a transmission line are clear evidence of ineffective inter-regional service provision.

In one sense, this is an unsurprising result, as there does not appear to be any accountability under the National Electricity Rules for ensuring inter-regional capability or for ensuring the reliability of any capability that exists in the face of routine changes in network circumstances.

But, in a broader sense we find it surprising that the Rules for the National Market do not contain any specification of the "hardware" that enables, or fails to enable, the operation of an effective national market. There appears to be no mechanism in the Rules to prevent the "national" market from degenerating into more or less isolated state markets.

This event also suggests an outcome worse than the gradual isolation of regions, with neighbouring regions not only failing to mitigate market issues within a region, but actually causing or aggravating problems there. Our submission to the Transmission Frameworks Review notes similar issues arising for circumstances within South Australia rather than Victoria.

We also see a close connection between the issues raised by this event and the current Rule change under consideration by the Commission in relation to "Potential Generator market power in the NEM. In this event, the forced export of energy from the South Australian region was equivalent to a substantial unplanned increase in local demand, and hence had the potential to significantly raise prices.

We do not expect that the analysis undertaken by the Commission will support a Rule change in relation to potential generator market power. However, we do wish to note that if evidence did suggest some exercise of market power then this would most probably be the result of restrictions in inter-regional transmission capability. Consequently, dealing with the matter in terms of supressing the exercise of market power would risk treating the symptom rather than the disease.

We also note that that, since this event arose during commissioning of a new generator, it may raise issues in relation to the process for connection of new generators. At present we do not have enough information to form a view on whether this is the case. If it becomes evident to us that there are policy issues in relation to connection that should be considered as a consequence of this event, we will provide that information to the Commission further at that time.

If you have any questions in relation to these matters, please call me on 03 9617 8300.

Yours sincerely,

Stephen Orr
Strategy & Regulation Director